



# **CalPERS Health Benefits Committee**

## **Kaiser Permanente National Pricing Solution - NPS**

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- Why are we changing rating methods?
- What is NPS (National Pricing Solution) and when will it be used?
- What's different with NPS?
- What's in it for CalPERS?

# Why are we changing rating systems?

In response to CalPERS and other purchasers demand for greater transparency, and the need to compare Kaiser Permanente's costs to other health plans, we began development of a new rating methodology approximately five years ago.

The change is focused on:

1. Aligning with industry-standard rating practices.
2. Providing better visibility into CalPERS group-specific claims and the relationship to claims and the renewal rates.
3. Better understanding of what's driving CalPERS health care costs.
4. Adopting industry-standard terminology.
5. Providing timely, industry-standard reports.
6. CalPERS obtaining a better understanding of what's driving their costs.

The National Pricing Solution (NPS) consists of several major components:

- A rating system that calculates rates for all purchasers using actual patient encounters.
- “Paid claims” or patient encounters are tracked and coded at all KP facilities and fed into the new rating system.
- A reporting tool that enables CalPERS to see how their premium rates are calculated, how their premiums are used to pay for their members care.
- Detailed reports about the types of medical services being used by CalPERS members allowing more thorough analysis and understanding of health trends.

In 2006, Kaiser Permanente will begin to use NPS for all 2007 renewals in California – this includes the CalPERS 2007 renewal.

- For most of our history, Kaiser Permanente charged the same rate for every employer. This approach is called 'community rating'.
- Our current rating approach is 'Adjusted Community Rating' or ACR. This basically involves two steps:
  1. Determine the annual community rate, and
  2. Adjust the community rate based on the group's volume and intensity of medical services.

- CalPERS, other purchasers and consultant concerns with ACR are:
  - A rating method unique to Kaiser Permanente not in alignment with industry standards
  - Utilization expressed in relative values not dollar terms
  - Uses terminology not consistent with industry standards
  - Does not provide the transparency required to perform due diligence comparison analysis.

- With NPS, we start with actual claims paid over a 12 month period to predict future costs and adjust for inflation, benefit changes, and other factors to forecast future revenue requirements.
- NPS will allow us to:
  - Be in alignment with industry standards,
  - Allow utilization to be expressed in dollar terms for patient encounters
  - Use terminology consistent with industry standards
  - Provide the transparency required to perform due diligence comparison analysis

## Illustration of rating methodologies...

### Old methodology

Adjusted Community Rating (ACR)

Rate Adjustment Factor X Community Rate  Premium Rate

### New methodology NPS (Industry Standard)

Prospective Experience Rating

Historical Group-Specific Experience X Trend  Premium Rate



- Greater transparency in CalPERS rates and rate development
- Provide CalPERS better visibility into the source of rate changes
- More recent data (i.e. claims/patient encounters) used in rate development which produces a rate more reflective of current experience
- Better comparability with other health plans with detailed reports, including:
  1. Rates and benefits
  2. Census and demographics
  3. PMPM claims
  4. Utilization data
  5. PMPM comparisons for CalPERS/health plan
  6. Year/year utilization and claims
- Better ability to study the underlying trends in health care costs, utilization and health status for your members enabling us to design joint initiatives and conduct evaluation of effectiveness.